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UNCLAS SECTION 01 OF 02 HANOI 001418

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TAGS: ECIN ECON EINT VM
SUBJECT: Vietnam Considers Price and Import Controls to Manage Inflation and Trade Deficit

REF: HANOI 1300; HANOI 1394

¶1. (SBU) Summary and comment: The Government of Vietnam (GVN) is considering new measures to address increasing inflation and the worsening trade deficit. The Ministry of Industry and Trade will try to control imports of non-essential items such as cars and cell phones by retracting incentives offered during the global economic crisis. The Ministry of Finance is seeking to manage inflation by introducing a new price control regime, which we view as a significant step backward from the market-oriented approach Vietnam has been pursuing. Embassy, USTR, other embassies, and the local and international business community have registered their concerns with the GVN about the price control circular, which has resulted in a temporary delay of implementation. While we are sympathetic to the GVN's challenge to control inflation and the trade deficit, there are better ways to manage inflation than establishing an extensive set of new government controls over prices. End summary and comment.

¶2. (SBU) In late November the Government of Vietnam (GVN) tightened its monetary policy, devalued the Vietnamese dong against the dollar, and announced it would end short-term interest rate subsidies, steps analysts viewed as a sign the GVN's economic focus was shifting from growth to addressing increasing macroeconomic imbalances (ref A). Prime Minister Nguyen Tan Dung recently told donor countries that the GVN is seeking to strike an "effective balance between combating inflation and encouraging growth" (ref B). The GVN is now considering additional measures to control prices and dampen imports to address both inflation and the worsening trade deficit.

MOIT "does its part" to decrease the trade deficit . . .

¶3. (SBU) Ministry of Industry and Trade (MOIT) Deputy Director General for Multilateral Trade Policy Luong Hoang Thai told econoff that MOIT had been instructed to "do its part" to mitigate the worsening trade deficit. Vietnam's trade deficit through November was USD $10.4 billion, down from the same period last year, but uncomfortably close to the GVN's target of keeping the deficit under USD $11 billion in 2009. Thai confirmed press reports that MOIT would try to control imports of non-essential items, including automobiles, handphones, and cosmetics, by repealing the "incentives" it had offered in 2009 when it feared the economy would enter a recession. For example, starting in January 2010, MOIT would cancel the fifty percent rebate on the VAT tax and car registration fees currently offered on imported automobile sales. In addition, MOIT would raise automobile tariffs to the WTO bound rates of 83% (note: MOIT voluntarily cut automobile tariffs below WTO bound rates in 2008 and 2009).

¶4. (SBU) Ford Vietnam's General Director Michael Pease told econoff that MOIT's announced measures had resulted in a huge jump in Ford's sales in December, as consumers hurried to purchase before the new measures took effect in January 2010. Pease said Ford Vietnam had experienced record sales in 2009, but he expected a significant decrease in 2010 after the incentives were retracted. Pease added that Ford had requested that MOIT phase in the return to higher VAT taxes and registration fees over several months, but MOIT refused.

. . . while Ministry of Finance tries to control prices

¶5. (SBU) The Ministry of Finance (MOF) is trying to "do its part" to control inflation by introducing new price control and registration measures. In mid-November, U.S. companies informed Embassy and USTR about a new MOF draft circular that, if implemented, would regulate and control prices on a set list of domestic and imported products and services. The circular - motivated in part by the increasing risk of inflation - is a significant step in the wrong direction from the market-oriented

approach Vietnam has been pursuing. In addition to its non-market approach, the circular would create new administrative burdens on parties throughout the production and distribution chain. Further, the draft appears to give MOF authority not only to set minimum and maximum prices for certain goods and services, but also to control imports and exports by taking other, unspecified, monetary or financial measures.

¶6. (SBU) According to the draft, the products subject to government control when their "prices fluctuate abnormally" or in an "unreasonable manner" include oil and gas, cement, steel, veterinary drugs, plant protection drugs, fertilizers, human medicine, milk (including infant formula and nutritional powders), salt, rice, sugar, railway transport, automobiles, and animal feed, including feed pellets for catfish and prawns. Many of these products and services are sensitive for Vietnam (i.e., oil, gas, sugar, rice, public sector services), and therefore are already tightly controlled; however, other categories capture potential U.S. exports (i.e., animal feed, infant formula/nutritional supplements, and automobiles) and could significantly impact U.S. companies. Although MOF officials claim this circular is one way to ensure that the poorest Vietnamese citizens are able to purchase "essential products," the Director General of MOF's Price Control Department, Nguyen Tien Thoa, told econoff that MOF wanted to implement the circular before the Vietnamese New Year holiday in February, when prices typically skyrocket.

USG and others' efforts appear to have delayed implementation for now

¶7. (SBU) After a month of the Embassy and USTR repeatedly raising USG concerns, the MOF appears to have temporarily delayed issuance of the circular. In addition to USG efforts, other embassies, local businesses, and the international business community have asked MOF for more time to review the circular and its potential impact on their activities and investments in Vietnam. Econoff and visiting Deputy Assistant USTR first raised USG concerns with MOF's Department of Price Controls on November 20. Econoff subsequently followed up in meetings with the Office of the Government on December 4 and the Ministry of Industry and Trade on December 10. Econoff and the Trade Counselors for the European Union and the

Embassy of New Zealand met jointly with MOF on December 11 in order to request again that the Ministry delay issuing the circular until interested parties had sufficient time to review and provide comments. (Note: MOF did not provide a final draft of the circular to Embassy until December 10).

¶8. (SBU) On December 17, Ambassador, together with the Ambassadors of the European Union, Australia, and New Zealand, sent a joint letter to the Minister of Finance registering "serious concern" over the circular, and requesting that MOF delay further action. The international business community, including the European Chamber of Commerce, the American Chamber of Commerce, and the U.S.-ASEAN Business Council, has also written MOF to register its concerns. In addition, Vietnam's Chamber of Commerce and Industry (VCCI) has asked MOF for a copy of the circular and is preparing comments with its concerns. MOF officials told us December 22 that they have delayed final issuance and implementation of the circular to consider the concerns of all relevant parties.

¶9. (SBU) Comment: We're sympathetic to the GVN's challenge to manage inflation and the trade deficit; however, we have suggested there are better ways to manage inflation than implementing a vague and far-reaching price control regime that gives the government broad authority to control prices and imports, and could potentially discriminate against U.S. companies and products. We have offered to work with the GVN to explore more effective ways to manage inflation (as has New Zealand).
Michalak